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Compliments of the First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York.

1812 1922

Economic Conditions
Governmental Finance
United States Securities

New York, February, 1922.

World Politics.

THE foreign situation has been disturbed during the past month by the resignation of the French premier, and the selection as his successor of M. Poincare, who apparently is less disposed to work harmoniously with the British premier and more unyielding toward Germany. It is quite probable, however, that French internal politics has had much to do with the change, and that no serious disagreement with England will result.

The German government has obtained from the Reparations Commission a temporary respite upon the payment due January 15, pending the submission of new proposals, meanwhile making partial payments. British public opinion upon the subject of reparations is evidently influenced by impatience to get over the existing stagnation in trade, and recognition of the fact that the heavy German exports that are necessary for the reparation payments are bound to be a disturbing factor in trade, wherever they are sent. The following comment from the January Letter of Barclay's Bank, London, is probably expressive of business sentiment in England:

> The position should be faced as one affecting the whole world, and if the preservation of the industrial equilibrium, rather than the receipt of maximum reparation payments, is the ideal decided upon, it must be achieved by limiting reparation payments to such goods as will not, in this or in any other country, create congestion and bring about a break in values. The prosperity of any industrial nation is dependent upon the prosperity of its customers, and we can no more afford to destroy the industries of our customers than we can afford to destroy our own.

The attitude of the British public is indicated also by the action of Lloyd George in proposing a conference upon economic conditions, to be held at Genoa in March and to which Germany and Russia are invited to send delegates. The British premier is outspoken and emphatic in his desire to promote peace, production and trade.

Whether or not the United States will be represented at this conference is not determined. The European countries naturally are very desirous that it should be, and upon general principles it would seem to be desirable, but the position of delegates from the United States would be exceedingly difficult, for the reason that much would be expected and they would be in position to promise practically nothing. Some good usually results from all conferences, but it must be recognized that in the present state of public opinion a delegation from the United States would have very little latitude for engagements as to the policies of this country. In regard to the existing indebtedness it could only point to the refunding act which probably will be passed in the next few weeks, and which probably will leave little open to negotiation. As to trade relations, they will be fixed on our side by the Fordney bill without much regard to any representations that our delegates at the conference might make. As to loans or financial assistance of any kind, there is no likelihood of organized effort in the United States until Europe has gone some distance in the settlement of its controversies and in putting its finances in order.

General Business Conditions.

The first month of the new year has been largely occupied with retrospective views and they have not been very pleasant ones. The year 1921 was the worst for business generally that has been experienced by most of the men doing business today. The list of receiverships and bankruptcies since the close of the year has been a formidable one, but no worse than expected, and on the whole the business community has stood up under great losses remarkably well. Generally speaking a business has done well to make the transition from the high level of prices to the low level now prevailing without either loss or profit. It cannot yet be confidently said that the bottom has been reached in all lines; on the contrary, there is reason to believe that in manufactured goods and construction work costs have yet to be materially reduced.

On the other hand, the industries that have to do with primary products probably are on safe ground. The meat-packing industry after a bad year in 1920 had a worse one in 1921.

All of the big companies had heavy losses, Armour & Co., leading with a deficit of $31,000,000, which is more than the profits of the best year in its history. The sugar companies fared as badly as the packing companies, and the big mail-order house of Sears, Roebuck & Co. suffered a loss of over $16,000,000. The banks naturally suffered through the numerous failures, and most of the state systems for the guaranty of bank deposits have been put out of business either temporarily or permanently. In the state of Washington every bank has left the guaranty system.

No marked change has appeared in general business conditions. The outlook for housebuilding is better than for any other construction work and is counted quite promising. Some giving way is noted in prices of materials and wages, but costs still are very high.

Iron and Steel Industry.

The iron and steel industry is about as in December, which showed some falling off from the Fall months. The output of pig iron in the year 1921 was 16,670,000 tons, the smallest since 1908. In 1920 the production was 36,925,987 tons and the average for 10 years was 31,566,355. The price of pig iron in the Mahoning Valley, Ohio, is $18.25 per ton and at Birmingham $16. The Inter-State Commerce Commission is asked to rescind the last freight rate advance so far as it affects the iron and steel industry, on the ground that this action is necessary to a revival of the industry. The *Iron Trade Review* gives the following figures to show how large a factor present freight charges are in the price of steel products:

> As the liquidation process throughout the industry was extended, the wholly disproportionate margin of cost assumed by the freight factor under prevailing rates was thrown in bolder relief. A typical study has shown that whereas on Jan. 1, 1913, the assembling cost for a ton of basic pig iron in the Mahoning valley was approximately 27 per cent of the selling price, it is now approximately 58 per cent. The estimated assembling charges in the two periods are $4.80 and $10.55 and the prices $16.45 and $18.25 respectively. With labor costs cut down 40 to 50 per cent from the peak, operating efficiency largely restored and other economics forced, the factor of freight cost obviously occupies a commanding position in its bearing upon future prices.

The composite weekly market average of fourteen iron and steel products, as given by the *Iron Trade Review* was $34.08 for December, 1921, against $54.04 for December, 1920. Aside from the United States Steel Corporation, most of the producers lost money in 1921. A merger of several of the larger companies has been under consideration, with a view to effecting economies, particularly in marketing.

The Railroad Labor Situation.

The railroad labor situation would be ludicrous if it were not so serious. The rates fixed by the Labor Board for common labor are so far above those prevailing outside of the railroad service that the companies are finding it practicable to contract out much of their work and save 20 to 30 per cent, which of course is after the contractors make a profit. The Erie has contracted for track maintenance over its entire line. The St. Louis & San Francisco substituted heavier rails over much of its line last year; if it had had the work done by its own employes it calculates that the cost of the labor would have been $550 per mile, but it was done by contract at $350 per mile. Pumps on the Frisco road are operated by electricity, and require only that a switch be thrown to start or stop, and an occasional oiling of the parts. Under the union-made rules that have been in force this meant three shifts on a pump, but the company has been able to contract for the service at a saving of about 65 per cent.

It would seem to be time that the public waked up to the fact that the cost of operating the railroads is not wholly a matter between the companies and the employes but of general concern. Occasionally a man who has this opinion makes himself heard. We have a letter from W. H. Harris, a large grower of pecans and peaches at Fort Valley, Georgia; he sets out his views in effective language in part as follows:

> The farmer wants no special legislation, no representation on the Reserve Board, no preferred jobs, he merely wants the special legislation favoring other workers removed, in other words, that every tub stand on its own bottom, and let each man earn what he can.
>
> Nothing will save the farming industry but a deep cut in freight rates. We are all merely producing tonnage for the railroads, who merely collect from the unorganized workers, and turn it over to the organized workers. The latter punish when the politicians fail to do their bidding; we farmers don't.
>
> When the Chicago labor board fixes a railroad man's pay at a higher price than he can earn in other open pursuits, it is no largess of the labor board. It is a purely arithmetical proposition. The excess given to the railroad worker is taken from what the farm worker earns.
>
> The impracticable humanitarian will say that the higher pay given the railroad laborer will put up to a "living wage" the pay of the laborer in other pursuits, but the reverse is true, for the more paid to the railroad labor, the less of the price there is left to pay the other labor.
>
> It is not a question between capital and labor, but it is between the different classes of labor, as to which shall get its fair share, or more than its share.
>
> Take Georgia's approximately ten thousand cars of peaches. In even figures, of the proceeds of the sale of this fruit this year, selling got 8 per cent, transportation got 62 per cent, and production got 30 per cent, out of which to pay all the labor that grew and picked and packed the fruit, as well as for a few such items as crates, fertilizers, spray material, wagons, mules, etc.
>
> The labor alone that hauled a car of peaches for four or five days, got more than all the labor that ployed, pruned, harrowed, sprayed, picked and packed the crop, nearly a year's work.
>
> Georgia's watermelon shipments were almost as bad.
>
> The sorriest negro porter that rides a train for a few hours a day through our town, gets more for his year's work than does the most intelligent, ener-

getic and efficient farmer for his year's work, averaging nearly twice as many hours a day. There isn't a farmer in the country who has gotten this year for his work as much as, not the best, but the sorriest such porter.

Agricultural Conference.

The Agricultural Conference at Washington last month did not show very much strength for the radical element in the agricultural population. There is every reason to regard it as a representative gathering, but while it voiced dissatisfaction with existing conditions it offered no governmental program for immediate relief. Evidently the members recognized that the whole world is passing through a period of unsettlement, and that natural forces must be relied upon to restore normal conditions.

The Conference was disposed to treat Mr. Gompers with consideration, as indeed everybody wishes to, but he presented an almost pathetic figure casting his lone vote against the otherwise unanimous declaration for the deflation of railroad charges and costs. It was a good thing for him to be there, for it put him in touch with real conditions. Of course Mr. Gompers must be sincere, because a man does not knowingly put himself in a position that is preposterous in the eyes of all observers. Facing representative farmers who are supplying foodstuffs and clothing materials to the wage-earning population at prices averaging as low as before the war, he contended for the maintenance of war wages on the railroads, in the mines and in the town industries, at their expense. Talking to men who are obliged to curtail their purchases on account of the high cost of town-made goods, he set up unemployment in the town industries as a reason for maintaining the wage-rates. If ever a man talked against the north wind he did, for his hearers had first hand knowledge that his millions of unemployed are being kept out of employment by the unyielding attitude upon wages that he was advocating.

He was not, however, absolutely uncompromising. He is reported as offering a resolution declaring that the workers in the agricultural field were "entitled to a large reward for the services they give society." This may have been only a gracious gesture, but perhaps he is so devoted to high figures, regardless of values, that he meant that if the farmers would combine and put the prices of butter, eggs, meat, flour, rice, sugar, cotton and wool back to where they were two years ago, he would congratulate them upon the achievement, although the results to the wage-earners would be no different from those of a wage-reduction. It is unfortunate for the welfare of millions that he is not able to see that money-wages are not everything, and that the important thing is to establish a fair basis upon which the products of the farm and the services of the workers in other industries may be exchanged.

A Slow Readjustment.

The processes of readjustment are working slowly, but undoubtedly progress is being made in restoring the industrial balance which is necessary to full industrial activity. Cotton mills in eastern Connecticut and in Rhode Island recently have put into effect a 20 per cent wage reduction, claiming that it is necessary to meet the competition of Southern mills. Whatever may be their relation to Southern competition, the reduction is needed to lower the price of cotton goods, and the same may be said of woolen goods. All kinds of clothing cost too much, and are out of line with the prices of the raw materials.

Wages in meat-packing establishments were reduced by agreement with representatives of the employes, but the unions called a strike, which proved unsuccessful.

The coal miners have set up a claim to an advance of 20 per cent at the expiration of their contract April 1st. Undoubtedly the miners had a hard year in 1921, on account of the reduced consumption of coal, but the remedy is not by raising the price of coal still higher. Coal shares with railroad charges a greater responsibility for the industrial depression than is borne by anything else. The situation will not be righted until transportation and fuel are both cheaper. The remedy for the distress of the coal miners is not in higher wages and dearer coal but in cheaper coal and steadier employment. Nothing but disappointment will come from blind disregard of economic law.

We have quoted above an extract from Barclay's Bank Letter, London, upon the necessity of considering the effect of the reparations payments upon industry. Here is another quotation from the same publication, discussing the cotton goods situation and showing the effect of high prices upon the Indian demand:

There is as yet little genuine revival of demand for foreign piece goods, and it is clear that the principal hindrance is the high level of prices. In 1913-14, total expenditure on piece goods in India amounted to approximately 93 crores of rupees, and this represented a consumption of approximately 527 crores of yards. In 1920-21, while the consumption had been reduced to approximately 402 crores of yards, the amount expended had risen to 193 crores of rupees, and it is this increase in cost which more than anything else is hindering the resumption of normal trading activities.

The high price of cotton goods is not due to high prices for the raw materials in this country, but by the time our raw cotton is paid for at a high rate of exchange, transported to England under high freight charges, made into goods under high labor rates and transported to India under high freight charges,

the goods cost too much to be bought freely. Prosperity waits on a readjustment of these conditions.

Agricultural Conditions.

It is generally recognized that the crux of the business situation is in the disproportionate relations between what farmers have to sell and what they have to buy. The great farm market for the town industries is paralyzed. It follows that interest centers from month to month in the movement of prices for farm products. During the past month the farmers have gained by a rise in the price of hogs, which from $8.50 to $9.20 per hundredweight in Chicago, were $2 above the low point of some weeks ago. That is a very substantial improvement, for in the Middle West hogs bulk large in the farmer's income.

On the other hand, butter and eggs, affected by weather conditions, suffered a bad slump in the early part of the month and then recovered most of it. Dairy products have held up better than anything else on the farmer's list during the past year, and have kept thousands of farms in ready money. In view of the amount of unemployment reported in the cities the consumption of butter and eggs has held up remarkably. The report of the American Association of Creamery Butter Manufacturers for the week ended January 14, 1922, showed for eighty-four plants an increased production of 4.4 per cent over the previous week and 40.7 per cent over the corresponding week of the year before. The price broke about 15 cents per pound, but has since made a partial recovery. The prices of both butter and eggs, out of storage, are now below the prices at which these products were put into storage last Summer and Spring. The weather has the last word as to whether or not profits are realized by the storage of dairy products.

European Wants.

Representatives of the Department of Agriculture who have been investigating food stocks in Europe report that all the countries accustomed to import foodstuffs must buy largely before the next harvest. This includes Austria, Germany, Italy, France, the Scandinavian and North Sea countries and Great Britain. The report says that German buying was checked in December by the fall of the mark, but that that country will require 2,000,000 tons.

In connection with all calculations upon the production and supply of those commodities which Europe was accustomed to buy before the war, allowance must be made for Europe's present inability to buy in normal quantities. This is illustrated in the case of sugar. Mr. Frank Lowry, of E. Atkins & Co., who is a well-known authority upon sugar, has said recently that if there had been no war and the world's consumption of sugar had continued to increase at the normal rate it would have been now about 22,000,000 tons per year. The actual supply of sugar for the year 1921-2 is a little under 16,000,000 tons, or 2,600,000 tons less than for the crop year 1913-14, and the market is oppressed by the fear of a surplus. The value of refined sugar at this time is lower in the United States than anywhere else in the world.

Cotton and coffee are two other products in which world consumption is much below normal. The movement of cotton is now a little above that of last year, but much below the pre-war movement. The price is down to about 16½ cents. The crop of this country in 1921 was about 8,000,000 bales. Consumption in the United States is now at a high rate, but the British industry is still running light.

Outlook for Farm Products.

While it is early to make predictions for the coming season there is a basis for confidence that prices of farm products will make some recovery in the present year. As a result of the short crop of cotton the surplus of that commodity which has hung over the market for several years will be in great part removed. While a larger crop may be expected in 1922 than in 1921, an increase of 5,000,000 bales sounds very large, and there is good reason to think that the market will take a 13,000,000 bale crop without a serious decline of price. The world's stock of cotton goods has not been kept up in recent years, and one of these days replenishment will be in order.

The statistical position of wheat is very strong, and common opinion is that we are not likely to have a bumper crop in this country in 1922. Stocks are light all over the world, and both Argentina and Australia have had unusual luck with their crops for now two years. All reports about the market in recent months have agreed that it lacked speculative support. The farmers marketed rapidly, and there was not enough speculative buying to sustain the price.

The corn crop was a magnificent one in quantity and quality, and together with a big carry-over from 1920, too much for the current demand. The South cut down its acreage in cotton and increased its acreage in corn; this year it will put some of that land back into cotton. The acreage of corn in other states was increased during the war, when prices were very high and some reduction will be naturally in order. Furthermore, it would be remarkable if the country had a fourth successive crop above the average.

Reports indicate a much improved state of feeling in the cattle country in recent months, the result in part of easier financial conditions and in part of the heavy liquidation that has taken place. The report from Texas is that the country is cleaned out of aged steers and that the amount of all kinds of cattle to come from there this coming Spring will be light. There has been a great distribution of herds under the pressure of debt, but it has left the situation much stronger. Men qualified to judge say the southwest has not in many years had so few cattle to sell. Cow values are said to have advanced $10 to $20 per head since the Fall.

One accomplishment undoubtedly may be credited to the Emergency Tariff, viz.: it has strengthened the market for wool and sheep. Ewes are in demand and have had a good advance in price. The prospect for the sheep-growers is considered much more promising. It should be added that foreign wool markets are stronger.

Insofar as the prospect for better prices is due to a general restriction of production we do not believe it signifies a real improvement of conditions. If the production of corn is out of balance with the production of live stock the situation should be corrected, but we do not believe the state of the country or the position of the farmer will be improved by a general curtailment of production. Higher prices will make living costs higher for the town population and tend to retard the readjustment of wages in the town industries, while the farmer can gain but little by higher prices for a reduced output. The farmer's investment in land and equipment is the same whether he grows a full crop or a short one, and he does so much of the farm work himself that the difference in outlay is comparatively small. The farmer can better afford to trade a full, normal crop for full, normal purchases of town-made goods than to trade a scant crop for a restricted output of the town industries, and the manufacturing industries will profit best by the same arrangement. What the workers in all the industries really want in the last analysis is plenty of each other's goods, and that is not to be had by the narrow policy of restricting production in order to put prices up on each other.

While it is true that a great amount of outstanding indebtedness will have to be carried over until after the next crop, and that probably there will have to be some readjustment of indebtedness which represents land transfers at the top of the boom, nevertheless there is reason for believing that the agricultural community is getting itself established on a solid basis again. Operating costs, so far as they lie within the farmer's control, have been rapidly lowered and other costs will have to come into line.

Hogs, cattle, cotton and dairy products give promise of fair returns as transportation charges and other items in the farmer's expense account come down to the same level.

The strength of the farmer's position at last is in the relation which the supply of his products bears to the growing population of the world. Consumption has been reduced, but that is an involuntary and temporary condition. The farmer can no more escape the effects of the social demoralization that has occurred the world over than can any other class, and he can bear it with as good reason for confidence as any class.

An Opinion From the Country.

The following from a small town in a western state, received some months ago, is interesting for the graphic picture it gives of the conditions resulting from the sudden decline of live stock and other farm products in the latter part of 1920, and also as showing that by no means all of the sufferers by that decline lost their mental poise or common sense. The writer says:

The past year or two have been, just as your letters say, very hard years on farmers and meat cattle producers, also dairy product producers, the latter of which I am. Butter fat declined in the first six months of this year to thirty seven and six-tenths against an average price for the first six months of 1920 of sixty-five cents. I had a surplus of feed last fall (1920) on which I could not get a bid and to try to save it bought 173 beef calves and fed them until May and June and lost heavily in the transaction. They were good stock, bought at the market price, we had an exceptionally good winter for feeding and they made good gains. Not counting anything for the six months' feed bill, I would have been a little better off just to have let my crop stand without harvesting and go to waste. Even at that I fared better than one of my neighbors who shipped in at the same time. He lost sixty dollars per head and laughed, saying the only consolation he could get out of it was that he met another feeder on the market who told him he had lost $100 per head and had fed longer. Now, in the face of the foregoing, let me tell you something that may be news to you. The cattleman of average intelligence and industry, who has a good equity in the land he needs for the business and a fair share of the capital to do business on, who decides how many cattle he can handle each year, and then handles that number each year, not picking out the good years and trying to handle more, or the poor years and handle less, on an average has as good business as most men have and is not in need of financial assistance from New York or any place else. I have been director in one of our banks for ten or twelve years, am not now, and know there has been but few times when a cattleman could not get all the money his credit entitled him to. I wish my credit had not been so good last Fall and every cattleman who failed to get money should be thankful. What the cattlemen and farmers need now is to have the wages of coal miners, railroad hands and all mechanics reduced until capital can keep them steadily at work so they can buy and can then sell the cattleman and farmer their products on something like the level farm products are selling.

I greatly fear congress is going to make a serious mistake in increasing tariffs on foreign goods and do

not believe cattlemen or farmers will derive any advantage from an increased tariff on farm products.

We have the capacity to produce in all lines, farm products and manufactured goods, a great surplus above our needs and what we want is to produce all of them at low enough basis to keep us all busy all the time.

Federal Finances.

The Hon. S. P. Gilbert, Jr., Under Secretary of the Treasury, before the annual meeting of Philadelphia bankers on January 12, reviewed the state of the Government's finances in an address replete with information.

He showed that the high point of the national debt was touched on August 31, 1919, when it stood at $26,596,000,000, from which it has been reduced to $23,439,000,000 on December 31, 1921. Of this reduction about $1,875,000,000 represents decrease in Treasury balances and the elimination of temporary items and about $1,275,000,000 represents actual reduction through surplus revenues. Since the beginning of the fiscal year 1921 the sinking fund and various miscellaneous receipts which have to be applied to debt retirement account for the principal reductions, and these will continue to accomplish reductions at the rate of $300,000,000 to $400,000,000 per year, which we should say was fast enough.

Of the total outstanding debt, aggregating almost 23½ billions, about 6½ billions fall due within the next 17 months, over 3½ billions of it in the form of Victory notes which mature May 20, 1923, about $2,200,000,000 in the form of Treasury certificates maturing at various dates within a year, and nearly $700,000,000 in War Savings Certificates, which mature January 1, 1923. Within a little more than a year later there will mature about $800,000,000 more of Treasury notes and War Savings Certificates.

Refunding the Short Time Debt.

During the year ended December 31, 1921, the Treasury has made substantial progress in the refunding of the short-dated debt, and has succeeded in bringing about a better distribution of the early maturities of the debt, which will facilitate the refunding operations incident to the maturity of the Victory Liberty loan. In April the Treasury announced that it would be the policy to vary its issues of Treasury certificates from time to time with issues of short-term notes in moderate amounts, and two issues of Treasury notes have already been successfully floated on June 15, and September 15, 1921. In consequence of these operations it has been possible to refund about $701,897,000 of the short-dated debt into later maturities, to reduce the Victory notes outstanding to about $3,548,289,500, and at the same time to bring the outstanding amount of Treasury certificates down to about $2,195,595,000.

Comparative statement of the Public Debt of the United States for December 31, 1920, and December 31, 1921:

Class	Dec. 31, 1920	Dec. 31, 1921
Pre-war debt	$883,622,190.00	$883,784,050.00
Liberty Bonds	15,285,832,800.00	15,207,389,400.00
Victory notes	4,225,928,250.00	3,548,289,500.00
Certificates of indebtedness	2,592,811,950.00	2,195,595,000.00
Treasury notes:		
Series A—1924....	....	311,191,600.00
Series B—1924....	....	390,706,100.00
War Savings Securities	756,768,190.53	651,844,374.27
Matured debt	7,597,390.26	11,867,140.26
Debt bearing no interest	225,242,689.37	238,317,186.83
Total Gross Debt	$23,977,803,460.16	$23,438,984,351.36
Net decrease	....	538,819,108.80

On January 26th the Secretary of the Treasury announced an offering of $400,000,000 three-year notes, in payment for which Victory notes will be received. The announcement states that the Secretary reserves the right to increase the issue up to 50 per cent if Victory notes are offered in that amount. This process of conversion, however, is hampered by the fact that the Victories have become popular as a short investment for banks and have gone to a premium.

Revenues and Disbursements.

In round numbers the Government's budget for the current year is on about a 4 billion dollar basis, and for the next fiscal year is expected to be on about a 3½ billion dollar basis. The estimates already submitted to Congress indicate total receipts for the current year of about $3,968,000,000 as against total expenditures, including sinking fund and other debt retirements chargeable against ordinary receipts, of about $3,992,000,000. On this basis there would be a deficit for the year of about 24 million dollars. For the next fiscal year total receipts are estimated at about $3,345,000,000, as against total expenditures on the same basis of about $3,512,000,000, leaving an apparent deficit of about 167 millions. The revenues of course are much affected by general business conditions, and accurate estimates far ahead are impossible.

Statement showing the ordinary receipts and disbursements during the first six months of the fiscal year 1922, and corresponding period fiscal year 1921:

	Fiscal year 1922 (first six months)	Corresponding period fiscal year 1921
Receipts—Ordinary:		
Customs	$147,008,361.30	$150,097,265.73
Internal revenue:		
Income and profits tax	1,239,416,131.55	1,628,208,930.54
Miscellaneous	688,745,602.59	770,064,311.20

Miscellaneous revenue	*233,255,431.64	†415,452,127.16
Panama Canal tolls, etc.	6,037,530.29	3,701,642.85
Total ordinary	$2,314,463,057.37	$2,967,519,277.48
Ordinary disbursements	1,837,907,432.80	2,508,014,333.05
Excess of ordinary receipts over ordinary expenditures	$476,555,624.57	$459,504,944.43
Excess of ordinary receipts over total expenditures (public debt and ordinary) chargeable against ordinary receipts (see note)	$217,403,924.57	$390,264,744.43

*Includes $59,974,465.64 received from Federal reserve banks as franchise tax, December 31, 1921.

†Includes $30,000,000 received from United States Sugar Equalization Board (Inc.), as dividend on capital stock owned by United States, and $60,724,742.27 received from Federal reserve banks as franchise tax, December 31, 1920.

Note.—This analysis is on the same basis as the figures for receipts and expenditures submitted in the Annual Report of the Secretary of the Treasury for the fiscal year 1921 and the Budget for the fiscal year 1923. The public-debt expenditures chargeable against ordinary receipts include expenditures on account of (1) Sinking fund, (2) receipts for Federal estate taxes, (3) retirements from Federal reserve bank franchise taxes, (4) retirements from repayments by foreign Governments, and (5) retirements from gifts, forfeitures, and other miscellaneous receipts.

The main items of expenditure for the present fiscal year, which absorb almost 90 per cent of the total, fall under eight main heads, as follows: Interest on the public debt, 975 millions; sinking fund and other fixed debt charges, 388 millions; Navy, 479 millions; Veterans' relief, 450 millions; War Department, 389 millions; Railroads, 338 millions; Interior Department, consisting chiefly of payments on account of pensions and Indians, 327 millions; and Department of Agriculture, 154 millions, for the most part for good roads.

With the heavy refunding operations that must be accomplished in the next two years it is apparent that the Treasury will be seriously embarrassed by the passage of the soldiers' bonus bill. It is a mistake to suppose that the Treasury can raise money now as in war time.

Federal Reserve Amendment.

The proposed amendment to the Federal Reserve Act increasing the membership of the Federal Reserve Board from seven to eight, for the purpose of enabling the President to add a "dirt farmer" to the present membership, has passed the Senate and is expected to pass the House, although it is safe to say that few members of either body believe it to be good legislation.

Nobody is alarmed about the direct results likely to ensue from having a farmer on the Board. The President doubtless will appoint an intelligent man, who will learn from his experience on the Board, if he does not know already, that the banking policies which best serve the interests of the whole country are also best for the farmers. The proposition is objectionable, not because competent farmers for the position may not be found, but because the arguments advanced for the appointment of a farmer have been thoroughly unsound. The proposition is based upon the theory of conflicting class interests—a false theory characteristic of people who are still in a primitive state of mentality and which is responsible for an incalculable amount of mischief. It is not true that the interests of bankers or manufacturers or merchants as a class are in conflict with the interests of farmers as a class, and any legislation proceeding upon that theory and fostering that idea is bad legislation.

It is not true that the administration of the Federal Reserve banks has discriminated against the farmers or been indifferent to their interests. That preposterous charge is now answered by the report of the Agricultural Joint Commission of Inquiry, headed by Congressman Anderson of Minnesota, which says that it has found no basis for it.

The Proposal Condemned by the Arguments for It.

The argument that a farmer should be on the reserve board to look after the interests of the farmers is enough of itself to condemn the proposal, for an appointee who entered the Board feeling that he was charged especially to look after the interests of any class would be disqualified from the beginning. He would have a mistaken idea of his duties, and if he undertook to perform them according to that idea he would render very poor service to everybody, farmers included.

A farmer will be only one of eight members of the Board, and if, unfortunately, he should have the narrow views that have prompted the amendment, he still will be a small minority; but if all appointments in the future are to be dominated by the idea of conflicting class interests, the results will be disastrous to the Federal Reserve system. The chief qualification for membership in the Federal Reserve Board should be a thorough knowledge of the science, practice and history of banking, and along with this there should be a business experience sufficient to have demonstrated to a person of naturally broad vision that the interests of every class will be best served by policies that serve the interests of all classes.

This is an age of specialists; the jack-of-all-trades is master of none. When men want skilled service in their private affairs they apply to specialists. A man may be a competent banker but without the knowledge or experience to be a practical farmer, and the reverse is also true.

Past Influence of Politics Upon Banking.

When the government of the United States was established, with one of the ablest constructive minds the country ever has produced at the head of the Treasury department, a central banking institution was created to perform in large degree the functions of our present Federal Reserve Banks. It rendered the service effectively but when its charter expired in twenty years a renewal was defeated for political reasons, and the bank was obliged to wind up its business. The services it rendered, however, were so much missed that a second Bank of the United States was chartered, with practically the same powers as the first. Unfortunately, this institution likewise was attacked for political reasons, and a renewal of its charter defeated.

For a period of nearly thirty years thereafter the country was served by banking institutions organized under state laws, in many instances at that time inadequate, with the result that the currency was of uncertain character and the losses of the public were heavy. The national banking system was then established and gave a good currency, but lacked central organization and was unable to protect the public from disastrous panics. This system also was a constant subject of political baiting. Finally, 77 years after the liquidation of the second Bank of the United States and 122 years after the first Bank of the United States was established, the Federal Reserve system was established, and this country again was provided with banking services based upon scientific principles and equal to those of other countries. Politics drove the two institutions organized under Federal charters out of existence and kept the United States without adequate banking facilities for 77 years.

When the Federal Reserve system was established, it was generally recognized by all familiar with the country's history that the chief peril it would have to meet was that of becoming involved in politics. The fact that the supervisory Board was appointed by the President gave a political contact almost certain to prove an element of danger. It gives support to the view that the Reserve Banks are government institutions, with the resources of the government behind them and charged with dispensing credit to all applicants. Of course, this is untrue. The reserve banks are no more government institutions than are the national banks. Their capital and deposits come from the member banks, and they are organized as agencies by which the local banks of the country may aid and support each other in rendering banking service. They should be controlled by the member banks and managed by bankers, because the best service to the public will be obtained thereby. The interests of the local banks are not antagonistic to the interests of the communities in which they are located, but in up-building and supporting those communities.

The Agricultural Joint Commission of Inquiry in its recent report says that the Federal Reserve Board was influenced unduly in regulating the discount rate by the wishes of the governmental authorities. It is of the opinion that the rates should have been advanced in the early part of 1919, before the post-war boom got under way, an opinion which many share. The Treasury wanted low discount rates to aid in floating the Victory loan, but in the opinion of the Commission this policy was not best for the country. This criticism points to the danger of having any influence swerve the Federal Reserve Board from its proper course, which is to be guided by banking conditons as they affect the general interests of the country.

If supervision of the banking system is to be entrusted to men without banking training, and who are appointed from various industries and sections for the express purpose of seeing that their respective constituents get what banking accommodations they want; and if political parties and candidates for office are able to boast of their control or influence over banking accommodations, no prophet will be needed to forecast the fate of the Federal Reserve system or the injury that will result to the public interests.

Distribution of Income.

Society the world over is in a state of disorganization and confusion. Millions of workers are without employment or regular income, and their dependent families are in distress. In the United States the crops of foodstuffs have been ample, but the producers are unable to dispose of them at remunerative prices because the would-be consumers are unable to buy. That this state of affairs is deplorable all are agreed. Nobody desires it to continue, but there is lack of agreement as to what may be done to remedy the situation.

There is a prevalent opinion that some authority or group of leaders might set everything right if only it was impressed with the necessity for doing so. This Bank receives letters, evidently written in all sincerity, urging that the great banks take speedy steps to afford relief. The banks are as much interested in the revival of prosperity as anybody can be, but have no control over the situation. The Government at Washington is urged from many quarters to do something forthwith, but the officials of the Government have enough to do to make its own finan-

cial ends meet. The Government has no control over the fundamental factors in the present situation.

Prosperity is a state which exists when everybody is able to readily exchange his labor or products for the labor or products of others. The terms of those exchanges have to be agreed upon by the immediate parties to them. Neither the Government nor the bankers can say how many bushels of corn shall exchange for a pair of shoes, a suit of clothes or a ton of coal, and these exchanges are the seat of this present disorder. When it suddenly takes two or three times as many bushels of corn to buy shoes or clothing, stagnation in the shoe and clothing industries naturally results. The purchasing power of the corn-growers is curtailed.

Industrial Discontent.

The explanation of the disorder which exists in industry is largely in the state of mind of the workers. It cannot be doubted that as a result of agitation that has been going on for years the wage-earning population has become to some extent imbued with the idea that wage-earners have been unfairly dealt with by the employing class. Many of them believe that they have not received a fair share of the fruits of their labors, and have determined to do less work and get more for it. One natural effect of this belief is to reduce the efficiency of the individual worker. Of course no one will work with good heart if he thinks he is unfairly dealt with. Another effect is a want of harmony between organized labor and the employers which interferes with the effective direction and management of industry. Of what use is it to appeal to bankers or employers for remedies for unemployment when their opinions and advice are viewed with suspicion and they can do nothing without co-operation?

What is the truth about the division of the industrial product? Do employers as a class obtain an excessive and unfair share of it and the wage-earners as a rule less than they ought to have? Is the distribution an arbitrary one, determined by employers to suit themselves, or is it a varying one, determined by industrial conditions and economic law?

Numerous calculations have been made from time to time by statisticians from the available data, and the data is increasing from year to year as statistical reports upon production are extended and made more complete. The income reports required by the government in connection with its system of taxation have added much to available material.

Who Gets the Industrial Product?

Evidently it is highly desirable that a careful study of the distribution of current wealth shall be made. What becomes of the industrial output of the country? For whose benefit does this great industrial organization function? In whose service are the thousands of factories running and the railroads kept in operation? For whose ultimate benefit are the great sums of capital raised, as represented by the daily bond and stock flotations, and the great industrial works projected? Do a few owners reap the benefits or are they widely diffused?

And not only is it very desirable that the truth shall be ascertained about distribution, but important that it shall be determined by the cooperative studies of a group of men representing different views upon social and industrial questions. In other words, it is highly desirable to have the facts removed from controversy. It is not to be supposed that men will ever agree in their opinions about all social and industrial policies, but if they can agree upon certain facts, much that is in controversy may be cleared up.

The National Bureau of Economic Research, Inc.

For the purpose of creating an organization for economic investigation whose findings would be generally accepted as trustworthy the "National Bureau of Economic Research, Inc.," was organized in New York in 1920. The original Board of Directors was made up as follows:

Professor Thomas S. Adams, Department of Economics, Yale University; Tax Adviser to the Treasury Department.
Professor John R. Commons, Department of Economics, University of Wisconsin;
John P. Frey, editor of the International Moulders' Journal;
Edwin F. Gay, editor of New York Evening Post, formerly head of the School of Commerce, Harvard University;
Harry W. Laidler, Secretary of the Intercollegiate Socialistic Society;
Elwood Mead, Professor of Rural Institutions, University of California;
Professor Wesley Clair Mitchell, Department of Economics, Columbia University;
J. E. Sterrett, of Price, Waterhouse & Co., public accountants, New York;
N. I. Stone, statistician and labor manager Hickey-Freeman Company, Rochester, N. Y.
Professor Allyn A. Young, Department of Economics, Harvard University.

The organization was formed with the above Board of Directors and vacancies in these memberships are filled by the Board itself.

In order to make the management and supervision still more representative, the following organizations were invited to each name an additional member of the Board, with full powers, and pursuant to this invitation the parties named were chosen and have participated in the deliberations of the Board:

American Economic Association—Professor David Friday, of the University of Michigan;
American Federation of Farm Bureaus—Gray Silver, Washington, D. C.
American Federation of Labor—Hugh Frayne, New York;

Engineering Council—W. R. Ingalls, New York;
American Bankers' Association—George E. Roberts, New York;
American Statistical Association—Malcolm C. Rorty;
Periodical Publishers' Association—A. W. Shaw, Chicago;
Industrial Relations Association of America—J. M. Larkin;
National Industrial Conference Board—Frederick P. Fish.

The research work was placed in charge of four men, eminently qualified by education and technical experience, to wit: Wesley C. Mitchell, Willford I. King, Frederick R. Macaulay and Oswald W. Knauth.

Distribution of Current Income.

It was determined that the first study should be into the distribution of the current incomes of the people of the United States.* The subject was approached from two sides, by statisticians working independently, on the one hand from data relative to the production of wealth in the country, such as statistics of the crops, mineral products, transportation, etc., and on the other hand from data relative to incomes received, such as income tax returns, census reports of salaries and wages paid in the industries, etc. A vast amount of information of various kinds is available, much of it fragmentary but valuable as affording opportunities for cross-checking. The two calculations from different sides of the subject check each other so well that for the nine years from 1910 to 1918 the average annual aggregate income of the people of the United States is fixed at $40,200,000,000 by one method and $39,700,000,000 by the other method. There are uncertain elements in the calculation, but the investigators agree in the opinion that an allowance of 10 per cent for error in the main findings is ample.

The National Income at 1913 Prices.

One of the most interesting features of the calculation is the table showing the aggregate national income yearly from 1910 through the war period and also the purchasing value of that income translated into 1913 values. Calculated in dollars the national income increased from $31,300,000,000 in 1910 to $66,000,000,000 in 1919, but calculating the value of the national product at 1913 prices the figures for 1919 are only $37,300,000,000, showing that the actual gain in product was only about 20 per cent, which is not much more than normal growth for nine years. The figures for each of the years are as follows:

Year	National Income (Billion dollars)	Weighted Index Number of Prices	Purchasing Power at Price Level of 1913 (Billion dollars)
1910	31.1	97.8	31.8
1911	31.2	98.5	31.7
1912	32.4	99.4	32.6
1913	33.3	100.0	33.3
1914	32.5	100.6	32.3
1915	35.9	102.5	35.0
1916	45.5	113.4	40.1
1917	53.9	136.1	39.6
1918	61.7	160.8	38.4
1919	66.0	176.8	37.3

*Income in the United States, by National Bureau of Economic Research, published by Harcourt, Brace & Co., Inc., No. 1 West 47th Street, N. Y.

The final estimate of the average income per capita, and purchasing power at price level of 1913, for the years from 1909 to 1918 is as follows:

		National Income		Purchasing Power at Price Level of 1913	
Year	Population in Millions	Income in Billion Dollars	Per Capita Income in Dollars	Income in Billion Dollars	Per Capita Income in Dollars
1909	90.37	$28.8	$319	$30.1	$333
1910	92.23	31.4	341	32.2	349
1911	93.81	31.2	333	31.7	338
1912	95.34	33.0	346	33.2	348
1913	97.28	34.4	354	34.4	354
1914	99.19	33.2	335	33.0	333
1915	100.43	36.0	358	35.2	350
1916	101.72	45.4	446	40.7	400
1917	103.06	53.9	523	40.8	396
1918	104.18	61.0	586	38.8	372

The per capita income shows what would come to each person if all incomes were lumped together and the sum divided equally to the population of the country.

Division Between Employes and Owners.

One of the most interesting results, and one which throws a flood of light upon the vexed wage question, is given in Table 18. This shows the "division of combined net value product of mines, factories and land transportation between earnings of employes and returns for management and the use of property." The results are given in millions of dollars and also in percentages of the net value of the product, as follows:

	Millions of Dollars		Per Cent	
Year	Wages and Salaries	Management and Property	Wages and Salaries	Managemnt and Property
1909	$6,481	$2,950	$68.7	31.3
1910	7,156	3,250	68.8	31.2
1911	7,287	2,791	72.3	27.7
1912	7,993	3,169	71.6	28.4
1913	8,651	3,359	72.0	28.0
1914	7,947	2,816	73.8	26.2
1915	8,722	3,470	71.5	28.5
1916	11,630	5,810	66.7	33.3
1917	14,375	6,502	68.9	31.1
1918	17,472	5,124	77.3	22.7

Note: In this table "wages and salaries" includes pensions, compensation for accident, etc.; "management and property" includes rentals, royalties, interest and dividends.

The above table includes the large, highly-organized industries, which according to the report, roughly speaking, produce one-third of the national income.

Commenting upon the showing the report says:

Except in banking and government work, which present obvious peculiarities, the percentage of the net product going to employes fell between 1914 and 1916 and rose again between 1916 and 1918 (except in farming). The rapid rise of prices in the first period redounded immediately to the benefit of profit-makers. Wages lagged far behind prices in their rise; but

they began to rise rapidly and the number of persons employed increased largely after the advance of prices had slowed down. The net result was that, by 1918, the employes in most industries were getting as large a slice of the product as before the war, and in some cases a decidedly larger slice.

Another significant comment is as follows:

It should also be noted that the available data comes from "going concerns". Losses which such concerns suffer presumably are deducted from profits. But the losses of enterprises that go into bankruptcy or "fail to succeed" in any year are not likely to be reported in our sources, and such losses fall mainly, though not exclusively, upon "management and property". De do not know how large such losses are, but they probably make an appreciable offset to the income received by active business men and investors.

Of the division between wages and salaries, the report says:

The indications are that in highly organized enterprises, salaries absorb not much more than 7 or 8 per cent of the payroll, and not more than 5 or 6 per cent of the net value product. In prosperous times, they increase less rapidly than wages, but fall little if at all in hard times. The net increase from 1909 to 1918 was 145 per cent in salaries of officials as against 172 per cent in wages of manual and clerical employes.

A Conclusive Showing.

Here is definite information, well authenticated, as to the division of the industrial products, at least so far as the highly organized industries in which large capital and great numbers of wage-earners are employed. It shows that in the ten years under examination wages and salaries absorbed from 66.7 to 77.3 per cent of the total values produced in these industries, the remainder going to the owners and others supplying capital. This, as the report properly points out, is the showing for the going industries; it does not include industries which have failed, shut down and made no reports of operations. A complete showing of the net return for capital in all industries would require that these losses be included.

Of course the share of capital as shown, ranging from 22.7 to 33.3 and averaging for the ten years 28.8, did not all go to rich people. The stocks and bonds of corporations are a common form of investment for people of all classes, and the bonds are very largely held by savings banks and life insurance companies. Moreover, an important share of the net earnings of the industries is devoted by the owners to enlarging the industries and improving the equipment, which redounds to the benefit of the public even more than to their own advantage.

These figures are something to ponder over. They ought to be brought to the attention of everybody, and particularly of those who are disposed to be critical of the existing industrial order. How much more than 70 per cent of the industrial product can the employes reasonably claim for their services, as against management and invested capital? Some accumulations there must be for the enlargement and betterment of industry, and some compensation for accumulation and for the responsibilities and risks of ownership are necessary in the common interest. The wage-earners are invited to participate in ownership, and where they take this invitation seriously are soon able to obtain an important share in it.

The "Cost of Living" Theory of Wage-Fixing.

The Executive Council of the American Federation of Labor in a statement recently given out has declared against the practice of fixing wages with relation to the "cost of living," "The American trade union movement," said the declaration, "believes that the lives of the working people should be made better with each passing day and year. The practice of fixing wages solely on a basis of the cost of living is a violation of sound economy and is utterly without logic or scientific support of any kind."

The practice referred to developed during the war when great confusion existed in wages and prices and there seemed to be no better way of temporarily adjusting wages than by reference to the changes in the cost of the principal necessaries. Claims for wage-advances were usually based on the advancing cost of living, and the validity of the argument was accepted.

It is true that the practice is unscientific and unsound, for the theory upon which it is based runs in a circle, the cost of living being itself determined mainly by wages. It should be added that all arbitrary or purely theoretical standards of wages and of living conditions are unscientific and unsound, except as they may be offered as ideals to be striven for. It is useless to set up an ideal standard of living in Russia at this time; if the food has not been produced it is not to be had, and living conditions everywhere depend at last upon the volume of production. The tables given above show the aggregate income of the people of this country, which it may be observed is somewhat in excess of the aggregate production of weath, as a good many incomes included are for services which figure as production in a negative way—such as most government services. It is impossible to divide any more than all there is; there is a definite limit, and the total is not ample. The lives of the working people will be made better if production is increased, not otherwise. It is important to put the emphasis in the right place. Endless gains are possible by that means, but few may be expected by fighting over the three-tenths or one-quarter that now goes to management and capital. Harmonious industry will

increase them, but group warfare will diminish them.

Distribution Governed by Economic Law.

The lesson to be found in this study of incomes is that they are governed by economic law, and not, as commonly assumed, by arbitrary power. They are not, in any general sense, within the control of employers, either singly or as a body, to fix as they please; nor can the general wage-level be materially changed by organization among wage-earners. There are certain relationships throughout industry, which in the long run are bound to be maintained. There is a balance, or equilibrium, which must be maintained for the best interests of all; if it is disturbed, the normal exchange of goods and services is interrupted, and although wages may be nominally high they are actually low when unemployment and the cost of living are taken into account. The latter is the state of things existing today.

The situation tends under the free play of natural forces to make the necessary adjustments and come into balance. The products and services which all classes have for exchange must be so valued to each other that the exchanges can be made. Wages must be high enough to enable the wage-earning class to buy and consume their normal share of the industrial product; otherwise products will accumulate and business will be bad. Likewise, farm products must have a purchasing power compared with other things that will allow the great body of people who live on the farms to take their usual share of goods, or unemployment in the other industries will result. Thus, every class, instead of being interested in fixing its own compensation without regard to the effect upon others, is interested in that right adjustment of values which enables the exchanges to be completely made, and in that manner serves the common interest.

When this idea of the necessary balance throughout industry is fully understood, the costly controversies and trials of strength, the "blocs" and various devices for imposing the will of small groups upon the community, will be seen to have been wholly misconceived and ineffective.

The Way of Real Progress.

The way of real progress is not by petty efforts to "make work" or advance the interests of each group at the expense of the others, for these have the net result of nullifying each other and obstructing all progress, but by the improvement of methods, making labor more effective everywhere, thus bringing more of the comforts of life within the reach of everybody. Every individual, whether he be employer or employee, who does not lend his efforts in good faith to accomplish this end is unfaithful to his social obligations.

When it is realized that seven-tenths to three-fourths of the industrial product goes direct for personal services, it will be appreciated how great are the gains to labor from industrial progress. Every invention, every installation, every investment of capital that increases the industrial output increases the income of labor by approximately three-quarters of the amount.

Conversely, every scheme for reducing the efficiency of labor or compelling the unnecessary employment of labor, thereby increasing industrial costs, offsets and nullifies the achievements of inventors and industrial leaders, and slows down the rate of social progress.

Engineering Achievement.

An eminent engineer, Mr. John E. Zimmerman, in an address delivered last month at a dinner of the Engineers' Club of Philadelphia, made the following illuminating statement as to the benefits that are accruing from improvements in the use of steam power since the Centennial Exposition was held in 1876.

> Contrast often tells a story: the great Corliss Engine exhibited at the Centennial Exposition at Philadelphia, was of the then unprecedented capacity of 1,400 H. P. and rotated at 36 R. P. M. Contrast with this the present largest turbo-generator of 80,000 H. P. (60,000 K. W.) at 1,800 R. P. M. What this advance and progress in the science of generation of electricity alone has meant to the human race in the conservation of its natural resources can best be illustrated by the amount of coal which would have to be burned today to produce the demand for central station energy if it had to be generated by the type of Colossus Corliss exhibited at the Centennial Exposition. I figure conservatively that the saving effected in a year's time, in this respect alone, amounts to not less than 21,000,000 tons, which if taken even at the very low average price of $2.50 per ton delivered, represents a yearly saving of $52,500,000 to the country at large.

Mr. Zimmerman's calculation is based upon the amount of energy generated by central stations. If account was taken of all steam-power generated the savings would be very much increased. The improvement in the generation of locomotive power has been as great.

President Harding, in his address to the Agricultural Conference, spoke of the economies that might be accomplished by the electrification of the railroads, and the calculation recently made of the gains that may be achieved by the construction of the proposed super-power line between Washington and Boston at an estimated outlay of $1,100,000,000, illustrates what may be expected from such development work. William J. Cunningham, Professor of Transportation, Harvard University, discussing the report upon the super-power line, has said:

> The typical railroad executive recognizes the advantages of electrical operation. He knows that it will eventually displace steam, at least on lines of heavy traffic and in congested terminals. For his own line under these conditions he would welcome the

advent of electricity if a fairy godmother would provide the capital funds and make it possible to earn the additional carrying charges. The problem is not one of engineering. It is essentially one of finance.

Mr. Samuel Gompers has recently given out a plan for restoring prosperity by the expenditure of great sums of capital in construction work of different kinds. Of course it is very desirable that such work shall be carried forward as fast as it can be done and capital is available for it. Here is seen the necessity for the balanced relation to which reference has been made. Somebody must have accumulated the capital with which payment for such work shall be made; evidently such accumulations are in the public interest, and if approximately three-fourths of all the income accruing from capital investments goes directly to labor there does not seem to be any occasion for labor to be alarmed over capital accumulations.

Census of Farm Property.

The census of farms taken in 1920 makes the following showing as to number of farms and the tenure, as compared with 1910:

	Number of Farms 1920	1910
Farmed by owners	3,366,510	3,354,897
Owners hiring additional land	558,580	593,825
Farmed by managers	8,449	58,104
Farmed by tenants on shares	1,678,812	1,399,923
Farmed by tenants, share-cash	127,822	122,466
Farmed by tenants, cash	585,005	712,294
Unspecified	63,165	113,993
Total	6,448,343	6,361,502

The total farm acreage in 1920 was 955,-883,715, of which 503,073,007 is classed as "improved", against 878,798,325 acres in 1910, of which 478,451,750 was classed as improved. The value of all farm property in 1920 and in 1910 was as given below:

Item	1920	1910
All farm property	$77,924,100,338	$40,991,449,090
Land and buildings	66,316,002,602	34,801,125,697
Land alone	54,829,563,059	28,475,674,169
Buildings	11,486,439,543	6,325,451,528
Implements and machinery	3,594,772,928	1,265,149,783
Live stock	8,013,324,808	4,925,173,610

Item	1920	1910
Average acreage per farm:		
All land	148.2	138.1
Improved land	78.0	75.2
Average value per farm:		
All farm property	$12,084	$6,444
Land and buildings	10,284	5,471
Land alone	8,503	4,476
Buildings	1,781	994
Implements and machinery	557	199
Live stock	1,243	774
Average value of land and buildings per acre	69.38	39.60

The information as to mortgage indebtedness refers only to farms operated by their owners and is as follows:

	1920	1910
Total number	3,925,090	3,948,722
Free from mortgage	2,074,325	2,588,596
Mortgaged	1,461,306	1,312,034
Unknown (no report)	389,459	48,092
Number of farms reporting amount of debt	1,193,047	1,006,511
Value of land and buildings	$13,775,500,013	$6,330,236,950
Amount of mortgage debt	$4,003,767,192	$1,726,172,851
Ratio of debt to value, per cent	29.1	27.3
Average interest rate, per cent	6.1	....
Average value per farm	$11,546	$6,289
Average debt per farm	$3,356	$1,715
Average equity per farm	$8,191	$4,574

Rock Island Valuation.

The Inter-State Commerce Commission has recently issued a tentative report upon the valuation of the Chicago, Rock Island & Pacific Railway system, which is of special interest inasmuch as it is the first report upon one of the larger systems of the country. The Commission's valuation of the Rock Island, including leased lines, as of June 30, 1915, was $341,577,539, to which has been added betterments from that date to December 31, 1920, of $34,500,000, making a total of $376,-077,539, as the present indicated property value. The outstanding securities of the company and subsidiary companies on December 31, 1920, were as follows:

Bonded debt, December 31, 1920	$230,289,360.00
Loans and Bills payable, same date	14,930,000.00
Preferred Stock, both issues	54,557,000.00
Total obligations ahead of Common Stock	$289,776,360.00
Common stock	74,877,200.00
Total capitalization	$374,653,560.00
Excess of valuation over all obligations, including Common Stock	$1,423,977.00
Amount applicable to Common Stock, per share	$101.90

The above is after depreciation charges. It is stated that the company has some holdings of other property which it is difficult to put a valuation upon and which is not included, but this presumably is of negligible amount.

As the suggestion has been made that the railroads would all benefit greatly in the valuation by the rise of land values, it may be stated that in the case of the Rock Island the total of land values is $36,940,652, and the excess of the valuation over original cost $29,824,428, or about 8 per cent of the total valuation.

This report is called "tentative", because it is still subject to change by the Commission, but it is not supposed that the alterations will be important.

BUDGET DEFICITS

By O. P. Austin

Statistician, The National City Bank of New York

Estimated for Countries herewith named, in their respective financial years 1920 and 1921; with estimate of deficit in financial year 1922.

In U. S. dollars at normal (pre-war) value of the respective currencies.

	Financial Year Ends	Financial year 1920 Million dollars	Financial year 1921 Million dollars	Estimate for financial year 1922 Million dollars
Austria	June 30	2,116*	30,100	33,021
Australia	June 30	....	....	12
Belgium	Dec. 31	1,077	883	no data
Bulgaria	Mar. 31	no data	66	307
Czecho Slov.	Dec. 31	5*	621	756
Denmark	Mar. 31	10	28	16
Dutch E. Ind.	Dec. 31	32	4	56
Esthonia	Dec. 31	....	22	no data
Finland	Dec. 31	17	34	no data
France	Dec. 31	1,094	550	309
Germany	Mar. 31	7,640	11,900	26,100
Greece	Mar. 31	77	189	no data
Hungary	June 30	1,968	1,940	4,017
Italy	June 30	2,702	2,065	820
Japan	Mar. 31	....	....	15
Jugo-Slavia	Dec. 31	380	401	410
Netherlands	Dec. 31	148	76	99
Norway	June 30	18	22	no data
Poland	Mar. 31	13,000*	42,060	38,600
Portugal	June 30	82	83	265
Spain	Mar. 31	10	154	125
Sweden	Dec. 31	29	56	no data
Switzerland	Dec. 31	19	19	19
Turkey	Mar. 31	no data	35	no data
U. of S. Africa	Mar. 31	No data	2	30

*Fractional year.

Tabulations recently presented in these columns showing the increases which have occurred in national debts and paper currency during and since the close of the war were accompanied by a statement that a large proportion of the additions to debts and paper currency since the close of the war had been created as a result of the huge "budget deficits"—the excess of expenditures over receipts—which had occurred in those countries. These deficits were in certain cases foreseen and frankly acknowledged by the financial officers of the respective governments in announcing their estimates, but in many cases were the result of circumstances unforeseen when the budgets were originally framed, and, in a large proportion of such cases, due to a reduction in the purchasing power of the currencies in which the budget estimates were stated. These reductions in the purchasing power of the currencies of the countries in question were interpreted as justifying and demanding large advances over the expenditures originally estimated and were not accompanied by a corresponding increase in revenues. The deficits thus created from month to month and year to year were met in part by additions to the national debt and in part by further issues of paper currency.

It is chiefly through these deficits and the means adopted for meeting them that the national debts of the world advanced from a little over $200,000,000,000 at the close of the war to nearly $400,000,000,000 at the end of 1921, and the paper currency from $40,000,000,000 at the close of the war, to $125,000,000,000 at the end of 1921. The addition to national debts and paper currency since the close of the war, it will be observed, aggregate approximately $250,000,000,000, if transformed to United States currency at the pre-war par of exchange, while the estimated deficits in the financial years of 1920-21 and '22 of the 25 countries named in the accompanying tabulation also aggregate about $250,000,000,000. The estimated deficits of the 'financial year 1922' have been already covered in part by debt or currency issues, since in many cases the 1921-22 fiscal year runs from April, 1921 to March, 1922, and in other cases from July, 1921 to June, 1922.

Striking Examples

That these increases in debts and paper currency have been in large degree coincidental with recurring and increasing "budget deficits"—excess of expenditure over actual receipts—is apparent by comparison. In Germany, for example, the national debt increased from $40,000,000,000 at the close of the war to $71,000,000,000 in 1921 and the paper currency increased from $4,000,000,000 face value to $24,000,000,000 in the same period. The Statesman's Year-Book of 1921, after showing that the receipts and expenditures of the "ordinary budget" for the fiscal year 1921 balanced, adds that "the extraordinary budget provides for a revenue of 2,879,000,000 marks and an expenditure of 52,579,000,000; while United States Commerce Reports of November 28, 1921, in a review of conditions in Germany put the 1921-22 deficit at 110,000,000,000 marks, and that for the fiscal year 1922-23 at 127,000,000,000 marks.

In Austria, the Vienna representative of the United States Department of Commerce in a report dated November 15, 1921, says: "The official estimated deficit for the fiscal year 1921-22 of 165,000,000,000 crowns has been severely criticized by an eminent authority who estimates the deficit at 400,000,000,000 crowns." In Hungary the Budapest correspondent of the Kolnische Zeiting says, under date of October, 1921, that the "increased deficit in the budget, due to the catastrophic depreciation of the krone, is giving rise to grave anxiety, and while the estimate of Finance Minister Hegedus puts the deficit at 6,000,000,000 kronen, the expenditure has so increased in the meantime that the deficit must be estimated at the present time at 20,000,000,000 kronen, the sum of 3,500,000,000

kronen having been expended on increasing salaries of the Civil Service." In Belgium the United States Commerce Reports of December 12, after remarking that the actual receipts of 1920 fell 1,341,000,000 francs below the estimated revenue of that year and that much of the increased expense of the government is due to additional allowances for salaries and expenses of government employes, states that the budget of the calendar year 1921 "carries a deficit of 4,584,000,000 francs against one of 5,589,000,000 in the previous year." Even in conservative Holland the semi-official publication of that government issued in New York under the title of "Holland and Her Colonies" estimates the government revenue of 1922 at $255,585,000 (U. S. currency) and the expenditures $236,360,000, and in the Dutch East Indies a deficit of $76,000,000, U. S. currency, while United States Commerce Reports of December 12, 1921, put the deficit of Holland at 227,000,000 guilders in the fiscal year 1921 and 250,000,000 guilders in 1922.

Authorities Quoted

It is upon recent statements of reliable authorities, such as those above quoted, that the following tabulation estimating the annual deficits in the principal countries having large post-war debt and currency increases, has been compiled. It does not profess to be a literal compilation of the officially estimated deficits of the countries in question since in many cases the actual deficits occurring in the months following the official estimate have far exceeded those of the original announcement made prior to the beginning of the year to which the budget applied. The purpose of this study and tabulation is to at least throw a sidelight upon the real causes of the growth in debts and paper currency of the principal countries in which such increases occurred, as shown in the tabulations presented in earlier editions of this publication. The statements here presented covering the latest estimates of deficits in the countries in question are drawn from recent issues of such reliable publications as United States Commerce Reports, the Standard Statistics Company of New York, the London Economist, London Statist, Economic World, Economiste Europeen, Espana Economica y Financiera, Basler Nachrichten, the Statesman's Year-Book, and other publications of this character.

Calculation at Par of Exchange

The figures of estimated deficits have been transformed to United States currency at par of exchange, as were also those of the tabulations on world debts and world currencies above referred to, because there does not appear to be any more accurate way of stating them. It is true that owing to the progressive depreciation of the currencies and the improbability that they will ever be restored to their pre-war values, the figures for debts and currencies are enormously exaggerated, but the legal values remain unchanged, and any calculation of the depreciation would be of value only for the moment. Under the circumstances it seems better to use the legal values and allow the reader to make the adjustments for himself.

Conditions in San Domingo.

The following extract from a letter written since the first of the year, reads as though it might have come from any one of a dozen agricultural states of this country. It is, however, from San Domingo:

> The economic crisis through which this country is passing at the present time is the most pronounced in its history and seems to grow more acute each day. It is only the climate and fertility of the soil that prevents actual suffering and starvation amongst the people.
> Our principal exports—sugar, coco aand tobacco—lack demand in the world's markets, and such demand as exists is at prices that do not actually cover the cost of production. The result is that the purchasing power of the consuming public is reduced to the minimum and business in general is at a standstill.
> Imports have dropped to practically nothing, the people are unable to pay their taxes, the merchant is unable to collect his outstandings or dispose of his stocks, with the inevitable result that neither the Government nor the merchants are able to meet their obligations.
> This is a gloomy though not exaggerated picture of the general situation at the present time and no real permanent improvement can be expected until better prices for our raw products prevail. This is the key to the whole situation, for as long as the farmer, whether on a large or small scale, gets less for his products than it cost him to get them to market, he cannot purchase imported articles nor liquidate with merchants who extended him credit.